TELECOM NEW ZEALAND

Goldman Sachs Conference, 10-11 March 2011

Chief Executive Officer – Paul Reynolds

STRATEGIC CONTEXT

- Competitive operating environment
- Government FTTH project (UFB) creating regulatory uncertainty
- Value continues to be driven by retention, targeted growth, operating and cost excellence and capital intensity
- Strong performance in managing decline in legacy revenues and positive trends in targeted growth areas
- Vision 2013 strategy
  - Delivers near term financial performance and longer term health through intense free cash flow focus
- Christchurch Earthquake
  - Fixed and mobile networks have remained resilient
  - Assessing damage and financial implications

CHRISTCHURCH EARTHQUAKE

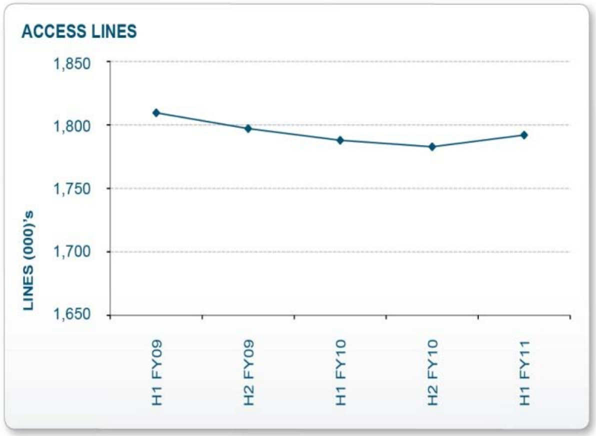
- Telecom’s team on the ground and across the country is working around the clock to provide every support possible

- Fixed and mobile networks stood up well considering the force of the earthquake
  - Majority of issues due to mains power outages, and physical damage
  - All Telecom networks are operational
  - Focus on diagnosing and restoring localised faults

STRATEGY UPDATE - VISION 2013

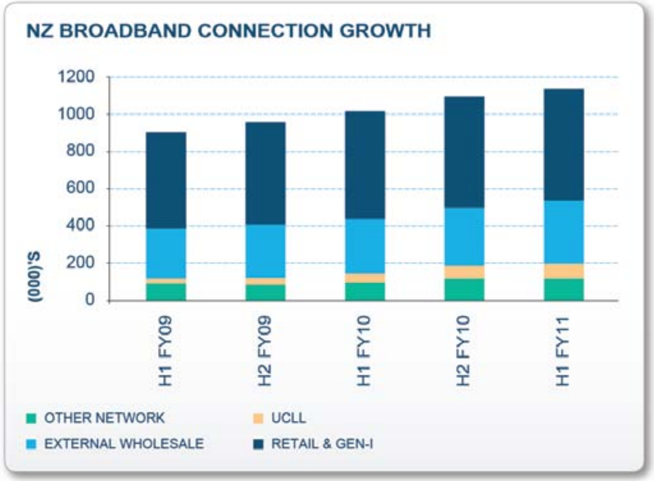
- Vision 2013 - Call to action focused on momentum in operating excellence, cost reduction and capital intensity
  - Product, platform and process excellence
  - Fit for purpose operating model
  - Focus on free cash flow through capital intensity
  - Embedded through aggressive initiatives, clear accountabilities and aligned group incentives
  - On track to deliver cost out of $155m in FY11

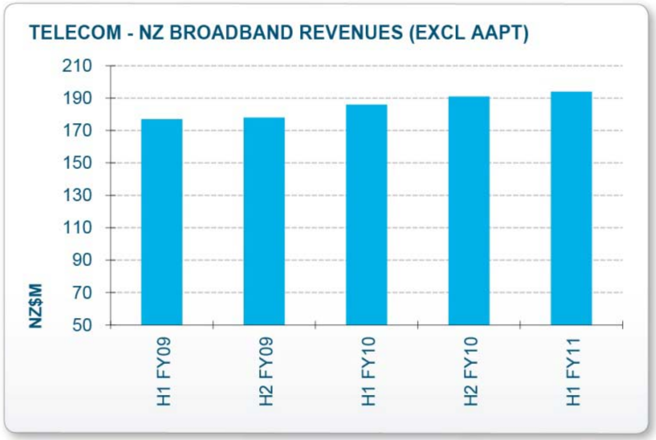
ACCESS & CALLING TRENDS



- Fixed line access performance solid
  - Access lines steady
  - Free local calling helps slow decline
  - Lines continue to shift from Retail to Wholesale
  - Fibre access market growing quickly off a low base
- Competition driving declines in Calling revenues
  - Underlying decline steady at around 12% (excl. transits and AAPT)

BROADBAND TRENDS

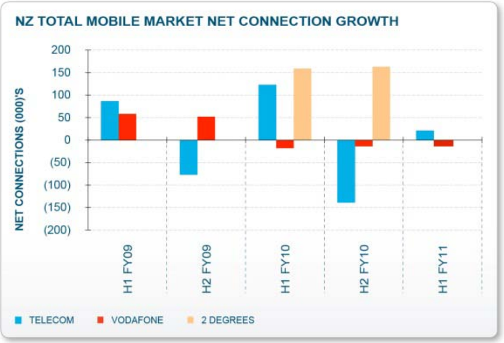


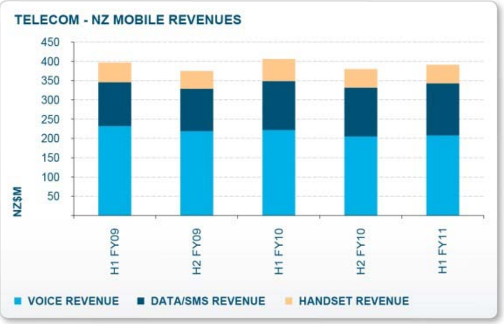


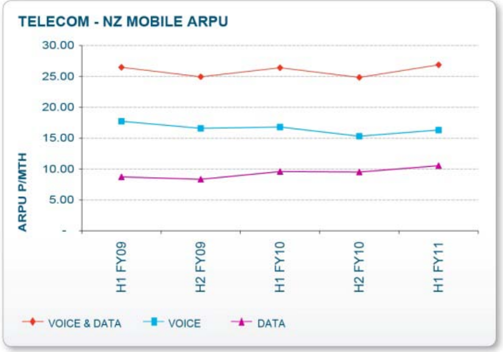
- Total market connections and revenues grew at ~10% to 12%
- Telecom focus on value and margin
  - Over 1 million connections on the Telecom network
  - Retail share 54%, ARPU steady
  - Competition intense in LLU areas
  - Wholesale pricing expected to remain volatile

Note – H1 data is based on a combination of IDC and Telecom estimates. “Other Network” assumed to be constant in half. All UCLL connections are assumed to be Broadband connections.
Note – includes all fixed line and cable Broadband, excludes mobile Broadband

MOBILE TRENDS







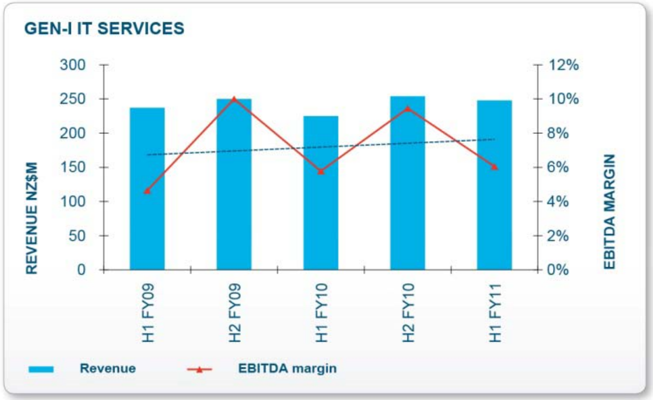
- Total market revenue growth slowed

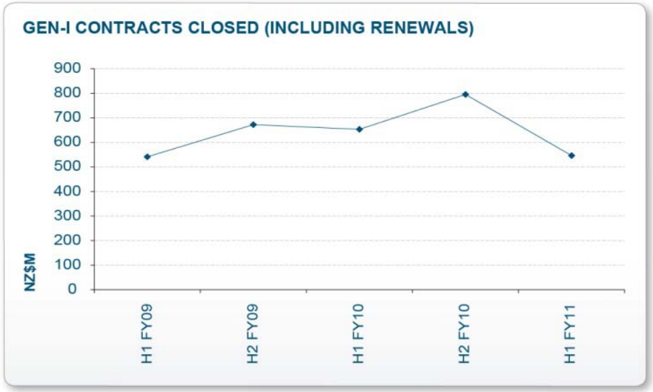
- Telecom connections up 21k in first half, and 40k in Q2
  - Postpaid base stable in Q2 as churn reduces
  - Prepaid connection up in Q2 through strong Xmas sales
  - 1m+ XT connections, 46% of base, 71% of cellular revenue

- Telecom ARPU improving - driven by conversion to XT and growing smartphone penetration
  - 16% of mobile base using smartphones
  - Growth opportunity through increased penetration of smartphones

- NZ mobile revenues down $15m or 4% vs H1 FY10
  - Driven by lower handset revenues and lower voice revenues, offset by growth in data revenues

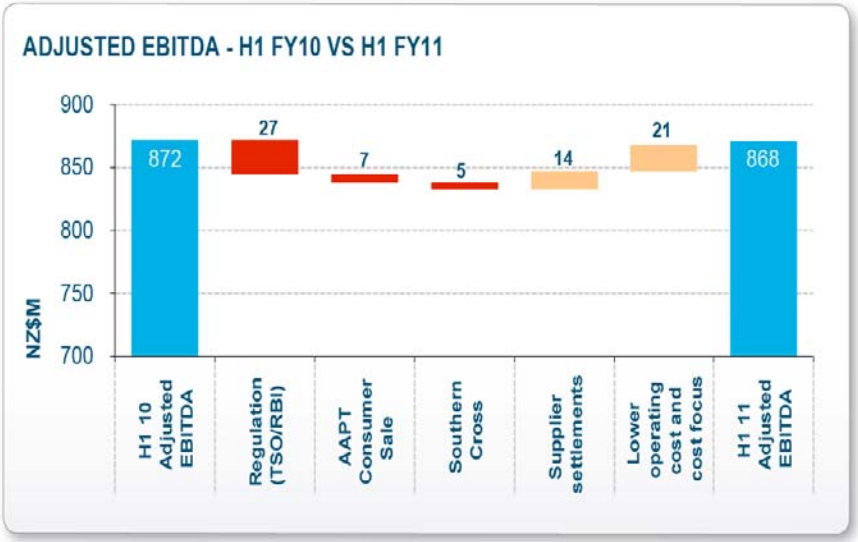
IT SERVICES TRENDS

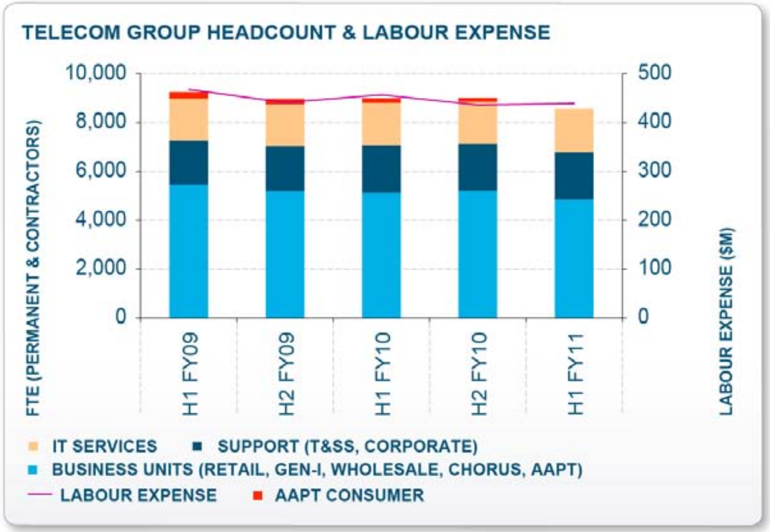




- IT Services market returning to growth
  - Cloud services continue to grow
  - Centralisation of government IT Services
  - Competition consolidating
- Gen-i IT Services revenues up by 10%, EBITDA up 15% vs H1 FY10
  - EBITDA margin seasonal but trending upwards
  - Managed services revenues growing faster than the market
  - Focus on growing share of customer wallet in outsourced client base

H1 FY11 KEY FINANCIAL MESSAGES

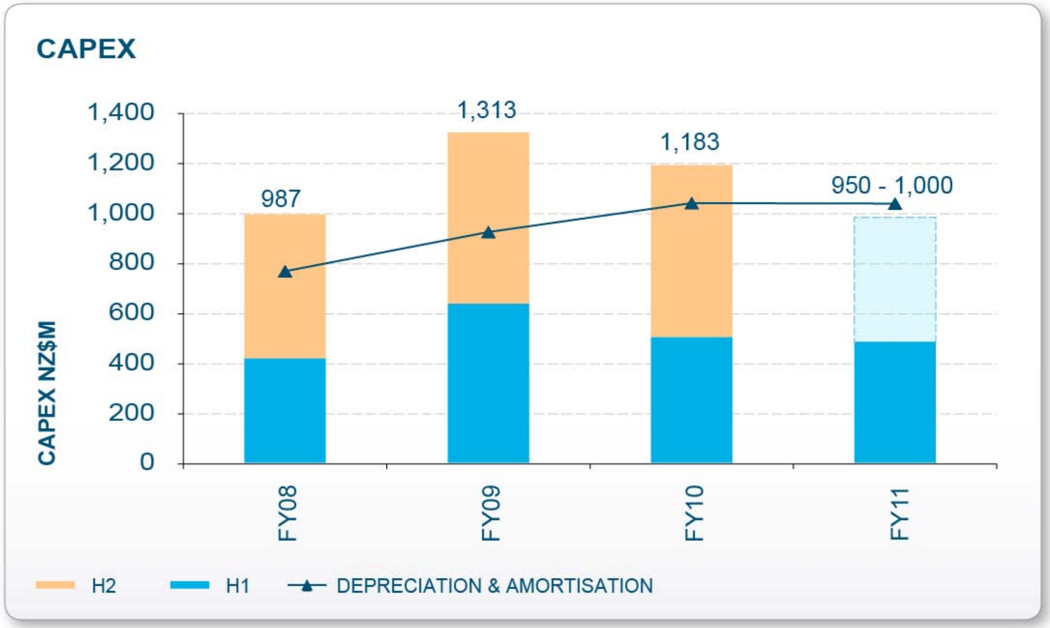




- Adjusted EBITDA $868m, down 0.5% on H1 FY10
  - Lower operating costs and cost focus mostly offsetting regulatory impacts and revenue declines
  - Adjusted EBITDA excludes UFB and natural disaster costs
- Adjusted free cash flow* up 4% to $388m

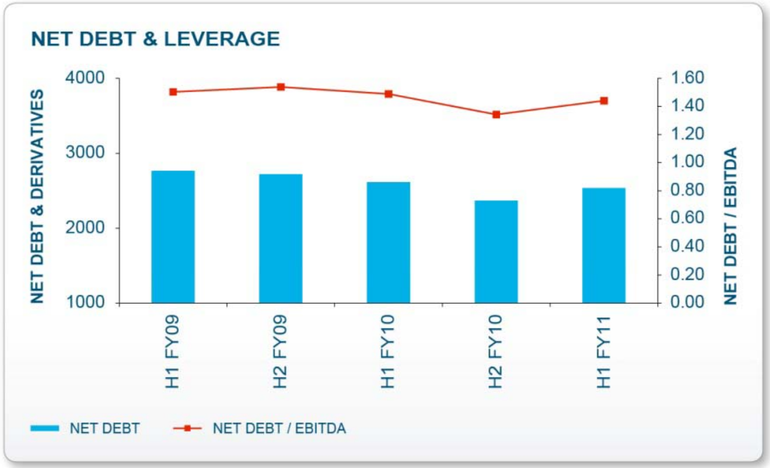
* Adjusted free cash flow is defined as EBITDA – Capex, it is before interest and tax

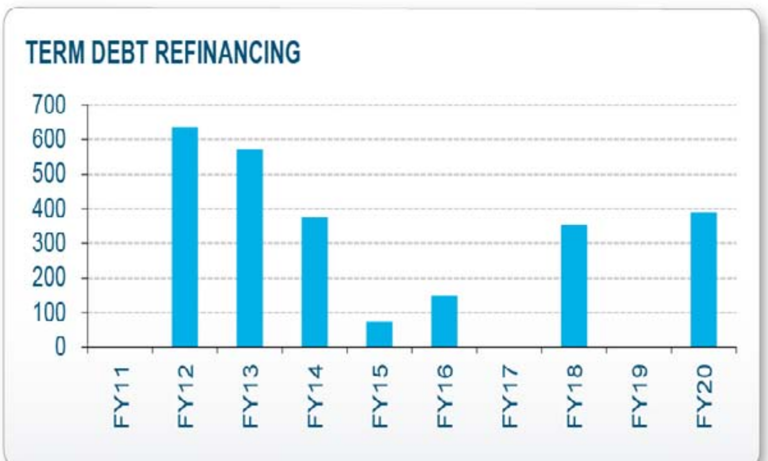
CAPITAL EXPENDITURE



- Forecast capex reduction
  - Reduced spend in low growth markets
  - Re-validate investment needs
  - Tighter control of project costs
  - Revised delegated authority limits

FINANCIAL PROFILE & CAPITAL STRUCTURE





- Credit Ratings maintained
  - S&P A (Creditwatch Negative)
  - Moody's A3(Outlook Stable)
- FY11 dividend policy
  - 90% payout of adjusted net earnings
  - Full imputation at rate of 30/70
  - 3.5cps dividend declared for Q2
  - DRP and on-market buyback suspended for Q2
- Appropriate capital structure for current operating environment

1 = Adjusted EBITDA calculation based on last 12 months, and utilises debt and derivatives at accounting values

GOVERNMENT BROADBAND INITIATIVES (UFB/RBI)

- Commercial negotiations continue with Crown Fibre Holdings (CFH) in relation the governments Ultra Fast Broadband (UFB) initiative
  - Telecom shortlisted for prioritised negotiations on 25 remaining regions
    - Equates to ~82% of the UFB coverage area
    - Competition in several regions from local fibre companies and electricity lines companies

  - Timetable for potential structural separation will be revised upon entering into a contractual arrangement with CFH

GOVERNMENT BROADBAND INITIATIVES (UFB/RBI)

- Supplementary Order Paper (SOP) released, which proposes further amendments to the Telecommunications Act in the event Telecom signs a commercial deal with CHF and demerges. SOP covers:
  - Structural separation
  - Operational & accounting separation requirements
  - TSO obligations
  - Pricing of regulated copper products
  - Other regulatory matters
- SOP is draft legislation which will go through normal parliamentary process
- Rural Broadband Initiative (RBI) - Joint bid with Vodafone has been selected for commercial negotiations (with MED)
- Our focus remains on finding solutions that meet the needs shareholders, the Government and New Zealand

FY11 GUIDANCE

- This financial guidance does not reflect any impact from the Government's Ultra Fast Broadband initiative, which is likely to reshape the industry
- FY11 Guidance
  - Adjusted EBITDA of $1.72 billion to $1.78 billion
  - Depreciation and amortisation of $1.00 billion to $1.06 billion
  - Effective tax rate of around 33%
  - Adjusted Net Earnings of $330 million to $370 million
  - Capex of $950m to $1.0 billion, (previously $1.0bn to $1.1bn)

FY12 – FY13 GUIDANCE

- This financial guidance does not reflect any impact from the Government's Ultra Fast Broadband initiative, which is likely to reshape the industry

- FY12 Guidance
  - Adjusted EBITDA to increase by $20 million to $80 million
  - Effective tax rate of 25% to 28%

- FY13 Guidance
  - Adjusted EBITDA to increase by $20 million to $80 million
  - Effective tax rate of 25% to 28%
  - Capex around $0.75 billion

DISCLAIMER

Forward-Looking Statements

- This presentation includes forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 regarding future events and the future financial performance of Telecom. These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond Telecom's control, and which may cause actual results to differ materially from those expressed in the statements contained in this presentation. Factors that could cause actual results or performance to differ materially from those expressed or implied in the forward-looking statements are discussed in the first half management commentary and in the risk factors and forward-looking statement disclaimer in Telecom's annual report on Form 20-F for the year ended 30 June 2010 which was filed with the U.S. Securities and Exchange Commission. Except as required by law or the listing rules of the stock exchanges on which Telecom is listed, Telecom undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

Non-GAAP Financial Measures

- Telecom results are reported under International Financial Reporting Standards (IFRS). The non-GAAP financial measures used in this presentation includes, but are not limited to:
  - Earnings before interest, tax, depreciation and amortisation ('EBITDA'). Telecom calculates EBITDA by adding back/(deducting) depreciation, amortisation, finance expense/(income), share of associates' (profits)/loss and taxation expense to net earnings/(loss) from continuing operations; and
  - Capital expenditure. Capital expenditure is the additions to property, plant and equipment and intangible assets, excluding goodwill and other non-cash additions that may be required by IFRS such as decommissioning costs; and
  - Average Revenue per User ('ARPU'). Telecom calculates ARPU as mobile voice and data revenue for the period divided by the average number of customers for the period. This is then divided by the number of months in the period to express the result as a monthly figure; and
  - Free cash flow. Free cash flow is defined as EBITDA less capital expenditure.
- Telecom believes that these non-GAAP financial measures provide useful information, but that they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with IFRS.

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